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Leslie A. Cesario, Ltd. Monthly Newsletter

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Family, Income, and Residence Changes Can Affect Your Premium Tax Credit

Article Highlights:

- Advance premium tax credit (APTC)
- Repayment avoidance
- Things you should report
- Special enrollment period

If you get health insurance coverage through a government Health Insurance Marketplace, it is very important that you keep the Marketplace aware of any changes in household income, marital status, and family size.

If you are receiving advance payments of the premium tax credit, it is particularly important that you report changes in circumstances, including moving, to the Marketplace. There's a simple reason: reporting these income and life changes lets the Marketplace update the information used to determine your eligibility for a Marketplace plan, which may affect the appropriate amount of advance payments of the premium tax credit that the government sends to your health insurer on your behalf.

Reporting the changes will help you avoid having too much or not enough premium assistance paid to reduce your monthly health insurance premiums. Getting too much premium assistance means you may owe additional money or get a smaller refund when you file your taxes. On the other hand, getting too little premium assistance could mean missing out on monthly premium assistance that you deserve.

Changes in circumstances that you should report to the Marketplace include, but are not limited to:

- An increase or decrease in your estimated household income
- Marriage or divorce
- The birth or adoption of a child
- Moving
- Starting a job that offers health insurance
- Gaining or losing your eligibility for other health care coverage

Many of these changes in circumstances - including moving out of the area served by your current Marketplace plan - qualify you for a special enrollment period to change or get insurance through the Marketplace. In most cases, if you qualify for the special enrollment period, you will have sixty days to enroll following the change in circumstances.

If you have questions about the premium tax credit or the advance payment of the credit, please give this office a call.

Don't Forget Those Nominee 1099s

Article Highlights:

- Who is a nominee?
- What a nominee must do
- Allocating reported income
- Series 1099 forms

For tax purposes, if you receive, in your name, income that actually belongs to someone else, you are also a nominee. Being a nominee means you must file with the IRS a 1099 form appropriate to the type of income you received that reports the other individual's share of the income and give a copy of the 1099 to the actual owner of the income. However, if the other person is your spouse, no 1099 filing is required.
The most commonly encountered nominee situations include when you have a joint bank account or brokerage account with someone other than your spouse and all the income from those accounts is reported under your Social Security number (SSN). You will need to issue the IRS and your joint account owner a 1099 reporting the co-owner's share of the income under his or her SSN. Then, when you file your return, you show all of the income but back out the co-owner's share as "nominee amount." Thus only your portion of the income is included in your taxable income.
The type of 1099 depends upon the type of income: 1099-INT for interest, 1099-DIV for dividends and 1099-B for the proceeds from selling stocks and bonds.

Forms 1099-INT and 1099-DIV that you issue as a nominee are supposed to be given to the recipients by January 31, while the deadline for giving Forms 1099-B to the other owner(s) is February 15. In order to avoid a penalty, copies of the 1099s need to be sent to the IRS by February 28. (When these due dates are a Saturday, Sunday or legal holiday, as they are in 2015, the forms become due on the next business day.) The 1099s must be submitted on magnetic media or on optically scannable forms (OCR forms). This firm prepares 1099s in OCR format for submission to the IRS along with the required 1096 transmittal form. This service provides recipient and file copies for your records.

If you have questions about filing 1099s, please call this office.

Beware Of the One-per-12-Month IRA Rollover Limitation Beginning In 2015

Article Highlights:

- 60-Day limit
- New interpretation
- New one-per-12-month-period rollover rule
- Types of plans included

The tax code allows an individual to take a distribution from his or her IRA account and avoid the tax and early distribution penalties if the distribution is redeposited to an IRA account owned by the taxpayer within 60 days of receiving the distribution.

Early in 2014, in a tax court case, the court ruled that taxpayers could only have one IRA rollover per 12-month period. This was contrary to the IRS's long-standing one rollover per every IRA account every 12 months. This far more liberal position was also included in published IRS guidance. However, contrary to general public opinion, guidance provided by the IRS in their publications is not citable, carries no weight in audit or court, and only represents the IRS' interpretation of tax law.

As a result, the IRS has adopted the Court's more restrictive position, but will not apply the new interpretation until 2015, giving taxpayers time to become aware of the new restrictions. The IRS is modifying its published 2015 guidance to reflect this new position.

The IRS announced in November that the one-per-12-month-period rollover rule also applies to Simplified Employer Pension Plans (SEPs) and SIMPLE plans. Included in the November announcement, the IRS indicated it would not count a distribution taken in 2014 and rolled over in 2015 (within the 60-day limit) as a 2015 rollover.

Not counted towards the one-per-12-month rule are traditional to Roth IRA conversions or trustee-to-trustee IRA transfers where the funds are directly transferred from one IRA trustee to another.

Please call this office if you are planning an IRA distribution and subsequent rollover and are not positive it falls within the one-per-12-month limit.

Take Advantage of Education Tax Benefits

Article Highlights:

- Student loans
- Gifting low basis assets
- Education credits
- Education savings programs
- Educational savings bond interest

The tax code includes a number of incentives that, with proper planning, can provide tax benefits while you, your spouse, or children are being educated. Which of these options will provide the greatest tax benefit depends on each individual's particular circumstances. The following is an overview of the various possibilities.

Student Loans - A major planning issue is how to finance your children's education. Those with substantial savings simply pay the expenses as they go while others begin setting aside money far in advance of the education need, perhaps utilizing a Coverdell account or Sec. 529 plan. Others will need to borrow the funds, obtain financial aid, or be lucky enough to qualify for a scholarship. Although student loans provide one ready source of financing, the interest rates are generally higher than a home equity debt loan, which can also provide a longer repayment term and lower payments.

When choosing between a home equity loan or student loan, keep in mind the following limitations: (1) Interest on home equity debt is deductible only if you itemize, and then only on the first $100,000 of debt, and not at all to the extent that you are taxed by the alternative minimum tax; and (2) student loans must be single-purpose loans—the interest deduction is available even if you do not itemize but is limited to $2,500 per year, and the deduction phases out for joint filers with income (AGI) between $130,000 and $160,000 ($65,000 to $80,000 for unmarried taxpayers).

Gifting Low Basis Assets - Another frequently used tax strategy to finance education is to gift appreciated assets (typically stock) to a child and then allow the child to sell the stock to pay for the education. This results in transferring any gain on the stock to the child at a time when the child has little or no other income; tax on the gain is avoided or is at the child's low rate. With the lowest of the long-term capital gains rates currently being zero, Congress curtailed income shifting to children by making most full-time students under the age of 24 subject to the "kiddie tax." This effectively taxes their unearned income at their parents' tax rates and makes the gifting of appreciated assets to a child less appealing as a way to finance college expenses.

Education Credits - The tax code provides tax credits for post-secondary education tuition paid during the year for the taxpayer and dependents. Currently, there are two types of credits: the American Opportunity Credit, which is limited to any four tax years for the first four years of post-secondary education and provides up to $2,500 of credit for each student (some of which may be refundable), and the Lifetime Learning Credit, which provides up to $2,000 of credit for each family each year. The American Opportunity Credit is phased out for joint filers with incomes between $160,000 and $180,000 ($80,000 to $90,000 for single filers). The 2015 phaseout ranges for the Lifetime Learning Credit are $110,000–$130,000 for married joint and $55,000–$65,000 for others. Neither credit is allowed for married individuals who file separately. Careful planning for the timing of tuition payments can provide substantial tax benefits.

Education Savings Programs - For those who wish to establish a formalized long-term savings program to educate their children, the tax code provides two plans. The first is a Coverdell Education Savings Account, which allows the taxpayer to make $2,000 annual nondeductible contributions to the plan. The second plan is the Qualified Tuition Plan, more frequently referred to as a Sec. 529 plan, with annual nondeductible contributions generally limited to the gift tax exemption for the year ($14,000 in 2015). Both plans provide tax-free earnings if used for qualified education expenses. When choosing between a Coverdell or Sec. 529 plan, keep the following in mind: (1) Coverdell accounts can be used for kindergarten through post-secondary education and become the property of the child at age of majority, and contributions are phased out for joint filers between $190,000 and $220,000 ($95,000 and $110,000 for others) of income (AGI); and (2) Sec. 529 plans are only for post-secondary education, but the contributor retains control of the funds and there is no phase out of the contribution based on income.

Educational Savings Bond Interest—There is also an exclusion of savings bond interest for Series EE or I Bonds that were issued after 1989 and purchased by an individual over the age of 24. All or part of the interest on these bonds is exempt from tax if qualified higher education expenses are paid in the same year that the bonds are redeemed. As with other benefits, this one also has a phase-out limitation for joint filers with income between $115,750 and $145,750 ($77,200 and $92,200 for unmarried taxpayers, but those using the married filing separately status do not qualify for the exclusion). The exclusion is computed on IRS Form 8815, Exclusion of Interest from Series EE and I U.S. Savings Bonds Issued After 1989.

If you would like to learn more about these benefits, or to work out a comprehensive plan to take advantage of them, please give this office a call.

Working Abroad Can Yield Tax-Free Income

Article Highlights:

- Tax-Free Income from Working Abroad
- Foreign Earned Income & Housing Exclusions
- Foreign Self-Employment Income
- Claiming or Revoking the Exclusion

U.S. citizens and resident aliens are taxed on their worldwide income, whether the person lives inside or outside of the U.S. However, qualifying U.S. citizens and resident aliens who live and work abroad may be able to exclude from their income all or part of their foreign salary or wages, or amounts received as compensation for their personal services. In addition, they may also qualify to exclude or deduct certain foreign housing costs.

To qualify for the foreign earned income exclusion, a U.S. citizen or resident alien must:

- Have foreign earned income (income received for working in a foreign country);
- Have a tax home in a foreign country; and
- Meet either the bona fide residence test or the physical presence test.

The foreign earned income exclusion amount is adjusted annually for inflation. For 2015, the maximum foreign earned income exclusion is up to $100,800 per qualifying person. If taxpayers are married and both spouses (1) work abroad and (2) meet either the bona fide residence test or the physical presence test, each one can choose the foreign earned income exclusion. Together, they can exclude as much as $201,600 for the 2015 tax year, but if one spouse uses less than 100% of his or her exclusion, the unused amount cannot be transferred to the other spouse.

In addition to the foreign earned income exclusion, qualifying individuals may also choose to exclude or deduct from their foreign earned income a foreign housing amount. The amount of qualified housing expenses eligible for the housing exclusion and housing deduction is limited, generally, to 30% of the maximum foreign earned income exclusion. For 2015, the housing amount limitation is $30,240 for the tax year. However, the limit will vary depending on where the qualifying individual's foreign tax home is located and the number of qualifying days in the tax year. The foreign earned income exclusion is limited to the actual foreign earned income minus the foreign housing exclusion. Therefore, to exclude a foreign housing amount, the qualifying individual must first figure the foreign housing exclusion before determining the amount for the foreign earned income exclusion.

Before you become overly excited, foreign earned income does not include the following amounts:

- Pay received as a military or civilian employee of the U.S. Government or any of its agencies.
- Pay for services conducted in international waters (not a foreign country).
- Pay in specific combat zones, as designated by a Presidential Executive Order, that is excludable from income.
- Payments received after the end of the tax year following the year in which the services that earned the income were performed.
- The value of meals and lodging that are excluded from income because it was furnished for the convenience of the employer.
- Pension or annuity payments, including social security benefits.

A qualifying individual may also claim the foreign earned income exclusion on foreign earned self-employment income. The excluded amount will reduce his regular income tax, but will not reduce his self-employment tax. Also, the foreign housing deduction—instead of a foreign housing exclusion—may be claimed.

A qualifying individual claiming the foreign earned income exclusion, the housing exclusion, or both, must figure the tax on the remaining non-excluded income using the tax rates that would have applied had the individual not claimed the exclusions. In other words, the exclusion is off-the-bottom, not off-the-top.

Once the foreign earned income exclusion is chosen, a foreign tax credit, or deduction for taxes, cannot be claimed on the income that can be excluded. If a foreign tax credit or tax deduction is claimed for any of the foreign taxes on the excluded income, the foreign earned income exclusion may be considered revoked.

Other issues:

Earned income credit - Once the foreign earned income exclusion is claimed, the earned income credit cannot be claimed for that year.

Timing of election - Generally, a qualifying individual's initial choice of the foreign earned income exclusion must be made with one of the following income tax returns:

- A return filed by the due date (including any extensions);
- A return amending a timely-filed return;
- Amended returns generally must be filed by the later of 3 years after the filing date of the original return or 2 years after the tax is paid; or
- A return filed within 1 year from the original due date of the return (determined without regard to any extensions).

A qualifying individual can revoke an election to claim the foreign earned income exclusion for any year. This is done by attaching a statement to the tax return revoking one or more previously made choices. The statement must specify which choice(s) are being revoked, as the election to exclude foreign earned income and the election to exclude foreign housing amounts must be revoked separately. If an election is revoked, and within 5 years the qualifying individual wishes to again choose the same exclusion, he must apply for approval by requesting a ruling from the IRS.

Are you looking for foreign employment or has an opportunity already presented itself to you? Before you make your final decision, please call our office to learn more about the foreign earned income and housing allowance exclusions, or how to meet the bona fide residence or physical presence tests.

Tuition for School to Treat Learning Disabilities is a Deductible

Article Highlights:

- Tuition To Treat Learning Disabilities is Deductible
- Medical Deduction
- Special Teaching Techniques

IRS has privately ruled that for a child diagnosed with multiple learning disabilities, tuition paid to attend a school designed to assist students in overcoming their disabilities and developing appropriate social and educational skills was a deductible medical expense.

Treating a child's learning disabilities can place a heavy financial burden on parents. As the ruling illustrates, the tax law may help by allowing a deduction for the cost of educating such a child.

However, like other deductible medical expenses, this cost is deductible only to the extent that medical expenses for the year cumulatively exceed 10% (7.5% through 2016 if the taxpayer is age 65 or over) of the taxpayer's adjusted gross income.

Medical care includes the cost of attending a special school designed to compensate for or overcome a physical handicap, in order to qualify the individual for future normal education or for normal living. This includes a school for the teaching of Braille or lip reading. The principal reason for attending must be the special resources for alleviating the handicap. The cost of tuition for ordinary education that is incidental to the special services provided at the school, and the cost of meals and lodging supplied by the school also is included as a medical expense. The distinguishing characteristic of a special school is the substantive content of its curriculum, which may include some ordinary education, but only if the ordinary education is incidental to the school's primary purpose of enabling students to compensate for or overcome a handicap.

IRS ruled that where the school uses special teaching techniques to assist its students in overcoming their condition and that these techniques along with the care of other staff professionals are the principal reasons for the child's enrollment at the school then the school is a "special school". Thus the child's tuition at the school in those years he is diagnosed as having a medical condition that handicaps his ability to learn are deductible.

The Tax Court has also held and IRS has privately ruled that, where a school attended by a student with a medical problem doesn't qualify as a special school because the ordinary education isn't incidental to the special services provided, the costs of the special program or special treatment (but not the entire tuition) may still be a deductible medical expense.

If you have questions related to this or other medical deductions please give this office a call.

2015 Standard Mileage Rates Announced

Article Highlights:

- 2015 standard mileage rates
- Business, charitable, medical and moving rates
- Possible mid-year adjustments

The Internal Revenue Service recently issued the 2015 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2015, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 57.5 cents per mile for business miles driven (includes a 24 cent per mile allocation for depreciation);
- 23 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations.

CAUTION: With the recent substantial drop in gas prices there is a very good chance the IRS will adjust the standard mileage rates mid-year to reflect the lower gas prices as they have done in prior years when gas prices spiked during the year.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. The rate for using an automobile while performing services for a charitable organization is statutorily set and has been 14 cents for over 15 years.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles used simultaneously.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

If you have questions related to best methods of deducting the business use of your vehicle or the documentation required, please give this office a call.

Make Your Preferences Known in QuickBooks

QuickBooks is ready to use when you install it. But you can change its settings to make it work the way your company needs it to.

There are some features that all small businesses need in their accounting software. Everyone needs a Chart of Accounts and a good set of report templates. There must be tools to bill customers and to document income and expenses. Some companies need payroll management, and some need the ability to create purchase orders. These days, many businesses want to accept payments online.

But what does *your* company need? It's unlikely that you would use absolutely every feature that QuickBooks offers, but you need to make sure that every tool you want to use is set up properly.

If you've been using QuickBooks for a while, you may have been directed to the **Preferences** window already (accessible by clicking on **Edit | Preferences**). If you're just starting out with the software, it's a good idea to acquaint yourself with the most important elements contained there. Here are some of them.

*Figure 1: QuickBooks' **Preferences** window. Some features are already turned on or off by default, but you can change their status.*

Accounting
Click on the **Accounting** tab in the left vertical pane, then on the **Company Preferences** tab. Here, QuickBooks wants to know whether you plan to use account numbers. It also offers the option to turn on **class tracking**, which lets you define classes like company locations or divisions, or salespeople. Not sure what you should do here? Please ask us.

Desktop View
Options here involve usability and visibility issues. Getting them right can save you time and frustration. For example, under the **My Preferences** tab, you can choose between a **VIEW** that displays only **One Window**, or one that keeps**Multiple Windows** open. Click on the **Company Preferences** tab to turn specific features – like **Payroll** and **Sales Tax** -- on and off.

Finance Charge
Should you decide to apply **Finance Charges** to late payments, for example, please let us go over this feature with you. We'll explain how it is set up and how it works in day-to-day accounting.

Items & Inventory
This is critical: you **<u>must</u>** visit this screen if you will be buying and selling products. First, you need to make sure that the box in front of **Inventory and purchase orders are active** has a check mark in it. If not, click in the box. Also important here: QuickBooks can maintain a real-time inventory level for each item you sell so that you neither run short nor waste money by stockpiling. Check the box in front of **Quantity on Sales Orders** if you want the software to include items that appear on sales orders in the count. Also, do you want a warning when you don't have enough inventory to sell (as you're filling out an invoice, for example)? We can explain the difference between **Quantity on Hand** and **Quantity Available**; it's rather complex.

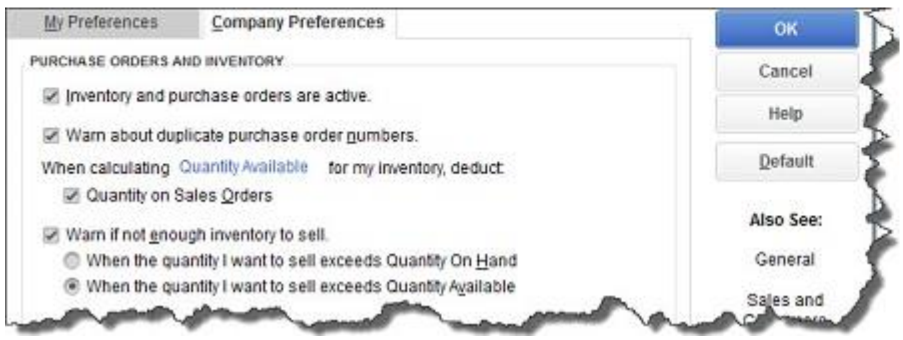

Figure 2: Some inventory concepts may be unfamiliar to you. If you'll be buying and selling items, let us walk you through this section.

Payroll & Employees
Payroll is integrated with QuickBooks, but it's so complex that it almost acts as another application. If you're planning to take this on yourself, some training will be necessary.

Reminders
Unless you have a very simple business or an extraordinarily good memory, you'll probably want Quickbooks to remind you when you need to complete certain tasks. Click **Reminders | Company Preferences** to see the lengthy list of events that QuickBooks supports, like **Paychecks to Print**, **Inventory to Reorder**, and **Bills to Pay**. You can have the software display either a summary or a list of what needs to be done, and you can specify how many days in advance you want to be alerted.

Sales & Customers, Sales Tax, and Time & Expenses
If your accounting workflow includes tasks in any of these areas, you'll need to visit them to turn features on and make other preferences known.

You probably won't need to have absolutely every feature turned on from the start. But as your business grows and changes – and we hope it does – you can always revisit the **Preferences** window to let QuickBooks know about your new needs. We hope you'll let *us* know, too.